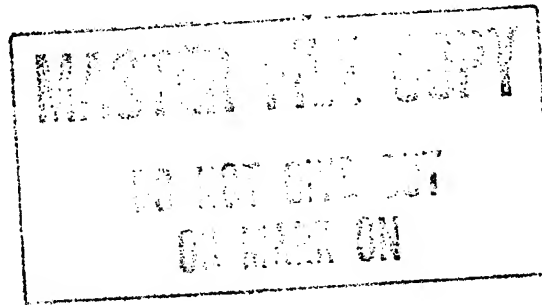




**Directorate of
Intelligence**

Secret

25X1



Chinese Military and Economic Programs in the Third World: Growing Commercial Emphasis

25X1

An Intelligence Assessment

Secret

*GI 84-10090
May 1984*

Copy **526**

Page Denied



**Directorate of
Intelligence**

Secret

25X1

Chinese Military and Economic Programs in the Third World: Growing Commercial Emphasis

25X1

An Intelligence Assessment

This paper was prepared by [redacted]
[redacted] of the Office of Global Issues. Comments and
queries are welcome and may be directed to the
Chief, International Security Issues Division, on
[redacted]

25X1

25X1

25X1

Secret

*GI 84-10090
May 1984*

Secret

25X1

Preface

This report assesses trends in Chinese military transfers and economic aid to non-Communist less developed countries with an emphasis on events in the 1980s. The statistical data supersede those in our previous publications. This publication supplements the annual statistical reference aid *Communist Aid to Non-Communist Less Developed Countries*.

25X1

The term *military transfers* includes both the sale and grant of military equipment and related services, such as advisory support, training, and construction of military facilities. *Military transfers* occur under signed *agreements, commitments, or accords*, which constitute a formal declaration of intent. The terms *deliveries* and *shipments* also are used to indicate the movement of foreign military goods and services to the recipient.

25X1

Within the *economic aid* context, the terms *extensions, commitments, and agreements* refer to pledges of goods and services, either on deferred payment terms or as grants. Assistance is considered to have been extended when accords are initialed and constitute a formal declaration of intent. *Disbursements* and *deliveries* refer to the use of goods and services.

25X1

The non-Communist *less developed countries* referred to in this report include: (1) all of Africa except the Republic of South Africa; (2) all of East Asia except Australia, Hong Kong, Japan, New Zealand, and the Communist states of Kampuchea, Laos, and Vietnam; (3) Malta, Portugal, and Spain; (4) all of Latin America except Cuba; and (5) all of the Middle East and South Asia.

25X1

The information in this report was derived from a variety of sources, including numerous open-source publications. Individual reports were correlated with other data to establish trends and to compile statistical summaries.

25X1

Secret

25X1

**Chinese Military and Economic
Programs in the Third World:
Growing Commercial Interests**

25X1

Key Judgments

*Information available
as of 1 May 1984
was used in this report.*

China's economic aid and military transfer programs in the Third World have changed dramatically over the past five years. In 1979 Beijing decided to emphasize military sales to earn hard currency and to reduce economic aid to conserve resources for its economic development. Since then, Beijing has emphasized commercial payoffs in almost all of its dealings with developing countries by:

- Increasing its arms sales almost 10 times over those of the previous four years. Since 1979 China has signed agreements to sell \$6.2 billion of weapons, 95 percent of them to Egypt, Libya, Iran, Iraq, and Pakistan.
- Expanding hard currency technical service contracts that provide economic technicians to LDCs for specific projects. China now has 29,000 technicians abroad, its highest level ever and double the number employed in LDCs in 1980.
- Shifting from the use of grant aid and interest-free loans in its economic aid programs to an emphasis on harder repayment terms and some interest charges.

25X1

The new policy represents a radical departure for Beijing in the Third World. Earlier, China had provided both economic and military aid on generous terms to poor clients who often could not afford a more costly Western presence. China never attempted to compete with other military suppliers in the quantity or sophistication of weaponry. Military agreements featured mostly small arms and, for some clients, old-model tanks and aircraft. The economic program highlighted showy projects, such as the Tan-Zam Railway in Africa, and sports stadiums in a number of countries.

25X1

It may be difficult for Beijing to maintain existing levels of military sales once the Iran-Iraq conflict is resolved. More aggressive Chinese arms sales policies could have only marginal results because of increasing competition among suppliers and LDC demands for more modern military equipment. China could offset some of these factors by:

- Specializing in the export of basic military equipment, support facilities, and spare parts and ammunition for Soviet-made equipment.
- Aggressively selling a few more advanced weapon systems, such as MIG-21 jet fighters and improved medium tanks.

25X1

Secret

25X1

Even if military sales decline, we foresee an active military and economic presence for China in the Third World through the end of the decade:

- Military deliveries will be sustained at an unusually high rate under several billion of contracts still outstanding.
- Beijing sees these programs as an important means to earn foreign exchange. According to the Chinese News Agency, Beijing is looking for at least \$1 billion in hard currency earnings annually from its service program by the mid-1980s and plans to have 100,000 technicians in LDCs by 1986. We believe these levels are not achievable until at least the end of the decade but are an important signal of the importance China attaches to growth of the programs.

25X1

Prospects for marketing Chinese civilian technical services appear almost unlimited because of the low salary rates and China's reputation for quality work. A possible shortcoming is Chinese inexperience with the high-technology Western equipment often used on projects where China is supplying only labor. China has undertaken a training program that will help it overcome this obstacle. We believe that economic and technical exchanges will continue to be the mainstay of China's program through the end of the century.

25X1

Secret

Secret

25X1

Contents

	<i>Page</i>
Preface	iii
Key Judgments	v
Military Sales: A Product of the 1980s	1
Agreements Soar	1
Record Deliveries	1
Small Military Technical Presence	2
Basis for New Policy	2
Economic Relations: Developing Commercial Potential	7
Entering the International Contracting Field	7
New Aid Hits Record Low	7
Technical Services: A Hard Currency Resource	10
Prospects	10

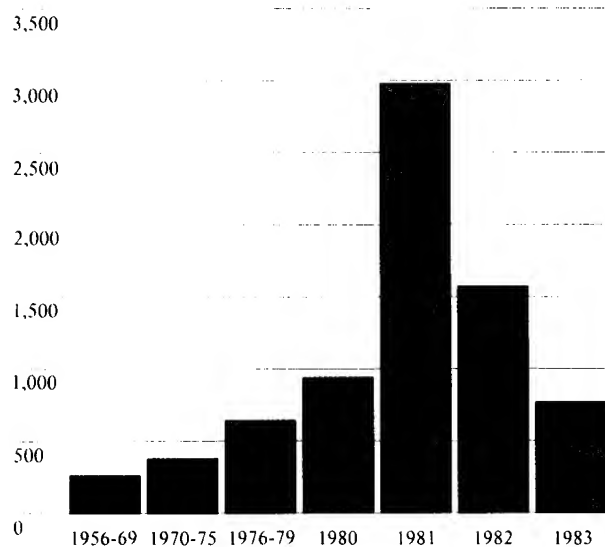
Secret

Secret

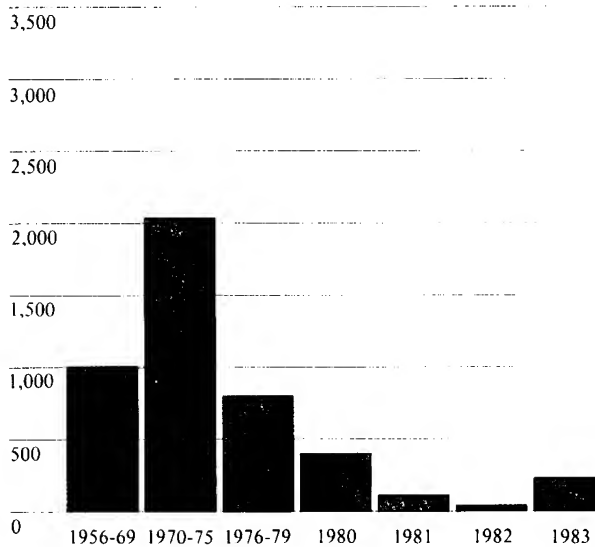
25X1

Figure 1
China: Third World Agreements and Deliveries, 1956-83

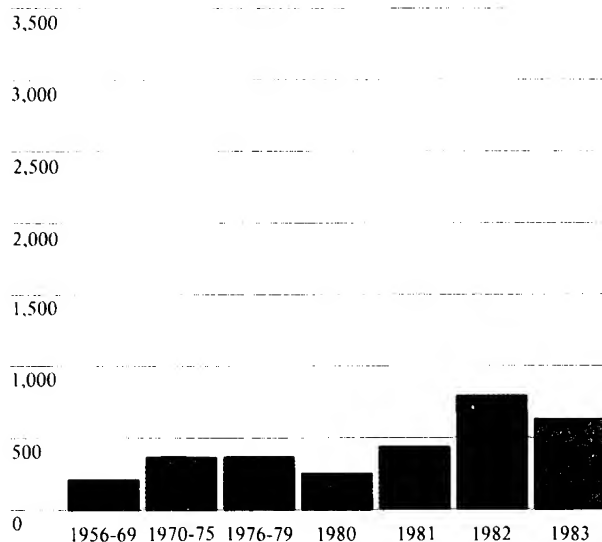
Million US \$
Military Agreements



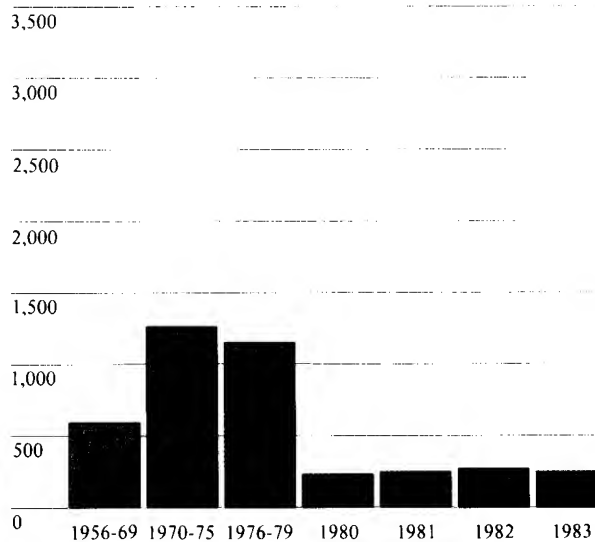
Military Deliveries



Economic Agreements



Economic Deliveries



302587 5-84

25X1

Secret

viii

Secret

25X1

Chinese Military and Economic Programs in the Third World: Growing Commercial Emphasis

25X1

Military Sales: A Product of the 1980s

Agreements Soar. Since Beijing's policy decision in 1979 to expand its sales of military equipment for hard currency, China has signed agreements to sell \$6.2 billion of weapons to LDCs (including a record \$3 billion in 1981), 10 times higher than Chinese military agreements in the previous four years. The Iran-Iraq war has propelled China into second place among Communist military suppliers, ahead of all the East European countries combined (but still far behind the USSR). In addition to Iran, Beijing has picked up several other clients in the 1980s—including Jordan, Libya, and Liberia—bringing its customer list to 49. The new emphasis on financial returns has changed the direction of the Chinese program away from traditional Asian and African clients to wealthier Middle Eastern LDCs (figure 2).

The Soviet Union's refusal to supply Iraq at the beginning of the Iran-Iraq war provided China with its most important breakthrough into the international arms market. Since then, Iraq has become China's best customer, with more than \$3.8 billion of orders for 70 F-7 fighter aircraft, antiship missiles, machine-guns, ordnance, and support equipment. A few other major clients make up more than 75 percent of the remaining orders:

- *Egypt* has bought more than \$1 billion in Chinese arms, mostly naval equipment and jet fighters.
- *Pakistan* has signed a billion dollars in contracts for FT-6 aircraft, T-54 tanks, A-5 Fantan fighter aircraft, and other military equipment.
- *Iran* has purchased ground and air defense equipment, ammunition, and other supplies worth \$500 million.
- *Libya* signed agreements worth more than \$300 million for military equipment, including anti-aircraft guns and ammunition.

These deals have included newer, more sophisticated equipment than China had traditionally been able to supply. For example, T-69 tanks were first deployed with Chinese forces in 1981, and MIG-21 jet fighters have been exported for only two years.

Table 1
China: Military Transfers to LDCs, by Year

Million US \$

	Agreements	Deliveries
Total	7,524	3,062
1958-73	516	452
1974	91	26
1975	40	101
1976	145	100
1977	74	73
1978	233	96
1979	193	100
1980	940	252
1981	2,964	437
1982	1,556	794
1983	772	631

25X1

25X1

Record Deliveries. China's drive to fill orders rapidly produced record deliveries in the 1980s. Average annual arms shipments of \$30 million to Third World clients doubled those of any previous year. Iraq has received about one-fourth of the deliveries since 1980, including China's first export of MIG-21 Fishbed fighters, substantial numbers of medium tanks, field and air defense artillery, and other military support equipment. Among the other major hardware transfers were:

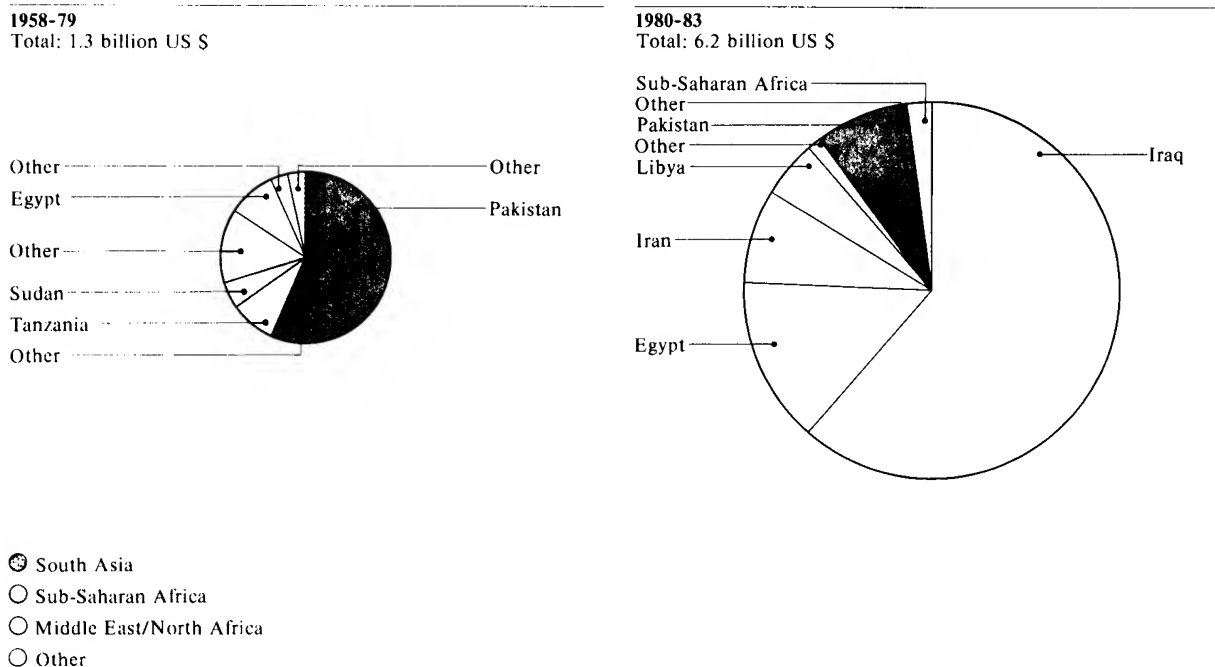
- The first Chinese T-69 tanks to Iraq.
 - The first F-7 jet fighters to Egypt.
 - Shanghai-II-class patrol boats, Hainan-class submarine chasers, and submarines to Egypt.
 - The first A-5 Fantan fighters to Pakistan.
- China will probably sustain a high rate of deliveries over the next few years because \$4 billion is still outstanding on orders from major clients.

25X1

25X1

Secret

Figure 2
China: Military Agreements by Major Clients, 1958-83



302588 5-84

25X1

Small Military Technical Presence. Unlike the cases of the Soviet Union and the East European countries, China's expanding arms sales have not led to a larger increase in military technicians and advisers. Only about 500 Chinese military personnel were in LDCs in 1983, about the same number as over the past decade. China generally has been reluctant to send large numbers of military technicians to LDCs because they fear involvement in conflict. China, on occasion, has even denied requests to augment its military presence in client states. For example, it recently refused to increase the small military services program in Tanzania (a major African client) even though it could have recovered some of the prestige lost when the Soviets replaced them as a major supplier a decade ago. Additionally, the unsophisticated Chinese military equipment eliminates the need for

a larger advisory presence and keeps training requirements to a minimum. Finally, China apparently does not use the program for profit. Beijing provides many services free and where salaries are charged they are nominal—\$5,000 to \$8,000 per year for technicians.

25X1

Basis for New Policy. Beijing's new aggressiveness in the international arms market underscores China's intent to pursue a competitive commercial arms export policy that emphasizes hard currency earnings rather than politics as the basic criterion for concluding agreements. Beijing has made administrative changes to facilitate such sales. By early 1980, [] China had established

25X1

25X1

Secret

Secret

Table 2
China: Military Agreements
With LDCs, 1980-83 ^a

Million US \$

Total	6,232
North Africa	315
Libya	305
Tunisia	10
Sub-Saharan Africa	135
Burundi	NA
Congo	NA
Guinea	3
Liberia	NEGL
Mali	2
Nigeria	12
Rwanda	2
Somalia	7
Sudan	36
Tanzania	18
Togo	3
Uganda	2
Zaire	28
Zambia	NA
Zimbabwe	22
East Asia	1
Malaysia	NA
Thailand	1
Middle East	5,284
Egypt	887
Iran	501
Iraq	3,826
Jordan	8
North Yemen	1
Oman	3
Syria	57
South Asia	497
Bangladesh	60
Pakistan	436

^a Because of rounding, components may not add to the total shown.

seven corporations to represent segments of the Chinese defense industry in commercial negotiations with LDCs. The corporations were willing to sell to all governments except Israel, South Africa, Taiwan, and South Korea [redacted]

Military Transfers

China's military program historically has run a distant second to economic aid as a means of influencing LDC governments. Hampered by deficiencies in its own military establishment and committed to avoiding military entanglements with LDCs, Beijing responded reluctantly to requests from LDC clients. China made occasional arms transfers to Third World countries in the late 1950s and early 1960s, but did not provide arms as a regular feature of assistance until 1965. Its support for Pakistan when the United States and United Kingdom cut off deliveries during the Indo-Pakistani war made China the supplier to whom Islamabad subsequently turned for rapid delivery during crises. As a result, Pakistan's orders accounted for one-half of China's \$1.3 billion of military commitments to LDCs in 1958-79. Another 10 percent went to Egypt to fill equipment and spare parts gaps after the withdrawal of Soviet aid in the mid-1970s. Most of the remainder went to 28 Sub-Saharan countries—the largest share to Tanzania. [redacted]

25X1

China's small military program never competed seriously with the USSR or Western suppliers, except in Pakistan and Tanzania, before 1979. For the most part, China provided small quantities of outmoded aircraft, ground forces equipment, small arms, and ammunition to the poorer less developed Third World nations. [redacted]

25X1

Since its decision to sell arms commercially, China has increased its hard currency sales sixfold, and the focus of the program has shifted to the Middle East. Giveaways have virtually disappeared from the program. [redacted]

25X1

[redacted] Because sales to Iraq have become so important to China, Beijing opened its first overseas arms sales office in Jordan in May 1982 to facilitate weapons transactions with Baghdad. [redacted]

25X1

25X1

25X1

25X1

Secret

Secret

Table 3
China: Military Transfers to LDCs,
1958-83 ^a

Million US \$

	Agreements	Deliveries	Equipment
Total	7,524	3,062	
Africa	841	761	
North Africa	349	338	
Algeria	12	12	Field guns, infantry weapons, and radio equipment
Libya	305	305	Unidentified military equipment
Morocco	1	1	Air defense machineguns and ammunition
Tunisia	31	20	Two patrol craft, air defense guns, tanks, and infantry weapons
Sub-Saharan Africa	492	423	
Botswana	1	1	Tanks, infantry weapons, and ammunition
Burundi	2	2	Infantry weapons, ammunition, radio equipment, and trucks
Cameroon	7	7	Two fast patrol boats, field guns, small arms, and ammunition
Central African Republic	7	5	500 trucks and other unidentified equipment
Chad	NEGL		Small arms and ammunition
Congo	10	10	Type-62 tanks, field guns, infantry weapons, three helicopters, 10 naval craft, and support equipment
Equatorial Guinea	NEGL	NEGL	Unidentified ground forces equipment
Ethiopia	3	3	Small arms and ammunition
Gabon	7	7	Artillery and small arms
Gambia, The	3	3	Small arms and radio equipment
Ghana	1	1	Small arms
Guinea	11	11	Two helicopters, four patrol craft, tanks, field guns, small arms, ammunition, and vehicles
Liberia	NEGL	NEGL	Military jeeps
Madagascar	2	2	Air defense guns, small arms, and ammunition
Mali	6	5	Five helicopters, Type-62 tanks, small arms, and military construction
Mozambique	5	5	Air defense guns, small arms, and trucks
Nigeria	12		Rockets and ammunition
Rwanda	10	10	Artillery, small arms, and vehicles
Seychelles	1	1	Small arms, vehicles, and communications equipment
Sierra Leone	3	3	Two patrol craft and small arms
Somalia	48	44	Fighter aircraft, infantry weapons, ammunition, spare parts, and trucks
Sudan	101	83	F-5 and F-6 fighter aircraft, tanks, infantry weapons, and signal equipment
Tanzania	129	118	Fighter and trainer aircraft, patrol craft, APCs, field guns, infantry weapons, and trucks
Togo	4	4	Infantry weapons and radio equipment
Uganda	2	2	Field guns and infantry weapons
Zaire	63	49	Four patrol craft, tanks, field guns, infantry weapons, vehicles, and spare parts
Zambia	32	32	Fighter aircraft, air defense guns, infantry weapons, and military construction
Zimbabwe	22	15	Field guns, infantry weapons, ammunition, and spare parts

Secret

Secret

Table 3*Million US \$***China: Military Transfers to LDCs, (continued)****1958-83 ^a**

	Agreements	Deliveries	Equipment
East Asia	45	45	
Burma	NEGL	NEGL	Ammunition
Indonesia	21	21	Fighter and bomber aircraft, air defense guns, infantry weapons, and radars
Kampuchea ^b	23	23	Infantry weapons and ammunition
Thailand	1	1	Mines and rockets
Malaysia	NA	NA	
Middle East	5,410	1,225	
Egypt	1,004	338	F-6 fighter aircraft, field guns, air defense guns, and vehicles
Iran	501	130	
Iraq	3,832	682	Field guns, antiaircraft guns, ammunition, and quartermaster supplies
Jordan	8	1	Flamethrowers
North Yemen	2	2	Small arms
Oman	3	3	Rocket launchers, field guns, and ammunition
South Yemen	NEGL	NEGL	Ammunition
Syria	59	69	Unidentified ground equipment
South Asia	1,228	1,031	
Bangladesh	165	94	Fighter and trainer aircraft, tanks, naval craft, and an ordnance plant
Nepal	6	6	Field guns and vehicles
Pakistan	1,034	908	Fighter, bomber, and trainer aircraft, naval craft, tanks, artillery, infantry weapons, vehicles, and support
Sri Lanka	23	23	Naval craft, field guns, and infantry weapons

^a Including all validated military agreements for military supplies provided for cash, under credit arrangements, or as grant aid. Values of military agreements are based on export prices charged LDCs. Because of rounding, components may not add to totals shown.

^b Before Communist takeover, April 1975.

Note: NEGL refers to less than \$500,000; NA indicates that value is not known.

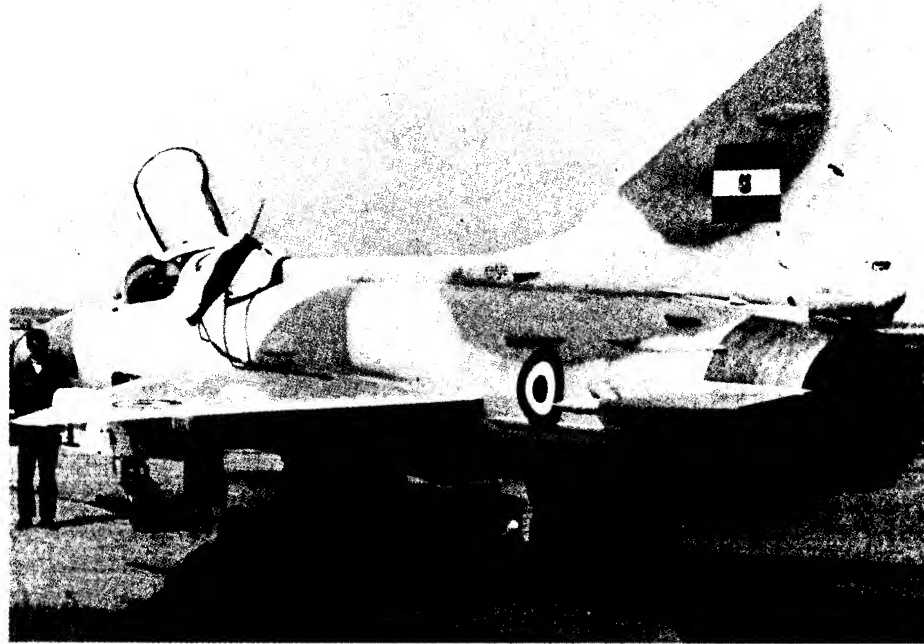


25X1

Secret

Secret

Figure 3. Chinese F-7 fighter aircraft.



China's more hardnosed approach to arms transfers is reflected in the reduction of grant assistance that was a key feature of China's program before 1978. We estimate that \$615 million of the \$1.3 billion of Chinese military transfers to 39 clients before 1979 was provided free; since then, we have documented less than \$10 million in military grants [redacted]

China does still seek political gains. Beijing is providing grant aid for dissident groups that have little prospect of buying equipment elsewhere. [redacted]

China provided grant aid to anti-Vietnamese elements in Indochina, resistance groups in Laos, the Afghan insurgents, and to factions of the Palestinian Liberation Organization (PLO). Because our information on these deals is fragmentary, we cannot place a value on these deliveries, which include small arms, munitions, explosives, and some training. [redacted]

China also has remained somewhat flexible in its dealings with old customers and has exempted some of its long-time African clients from its cash-and-carry terms. China's offers of military aid to Zaire in

1982, for example, carried 10-year repayments in goods or hard currency, after a nine-year grace period. No other military supplier offers such generous terms. [redacted]

In addition to financial returns, Chinese arms sales sometimes benefit China's domestic weapons development program by allowing access to foreign military technology. Pakistan, for example, has allowed Beijing to study advanced French weapons and possibly US Sidewinder missiles in its inventory. China and Pakistan also have agreed to joint weapons development and production using Western technology. Investments in Chinese defense industries to modernize facilities and procure new technology and equipment from the West could be facilitated by earnings from arms sales. Sales to LDCs could also lower unit costs for some military items if they encourage larger production runs [redacted]

25X1

25X1

25X1
25X1

25X1

Secret

Table 4
China: Military Technicians
in LDCs, 1983 ^a*Number of persons*

Total	530
Africa	375
North Africa	20
Algeria	20
Libya	NA
Sub-Saharan Africa	355
Cameroon	35
Congo	100
Rwanda	NA
Somalia	10
Sudan	40
Tanzania	50
Zaire	100
Zambia	20
Middle East	115
Egypt	65
Iraq	50 ^b
South Asia	40
Bangladesh	40
Pakistan	NA
Sri Lanka	NA

^a Minimum estimate of the number of persons present for one month or more.^b Includes contingent located in Jordan assembling Chinese-supplied F-7 fighters for Iraq.**Economic Relations: Developing Commercial Potential**

Entering the International Contracting Field. As with the military program, China is cutting down on giveaways in its economic aid and is now emphasizing commercial returns and hard currency earnings from technical services. The economic program has evolved from a modest effort featuring liberal amounts of grant aid to a major campaign to sell technical services and equipment for profit. Beijing's current leadership is trying to push China into the world economy by introducing its most salable items—such as cheap labor—into the international marketplace. In its aid program, China is seeking to combine enhanced hard currency earnings with benefits to LDC economies.

Table 5
China: Economic Aid to LDCs, by Year*Million US \$*

	Agreements	Deliveries
Total ^a	5,921	3,991
1956-73	3,643	1,364
1974	282	277
1975	410	208
1976	196	355
1977	210	277
1978	219	292
1979	177	226
1980	402	228
1981	112	244
1982	41	271
1983	231	249

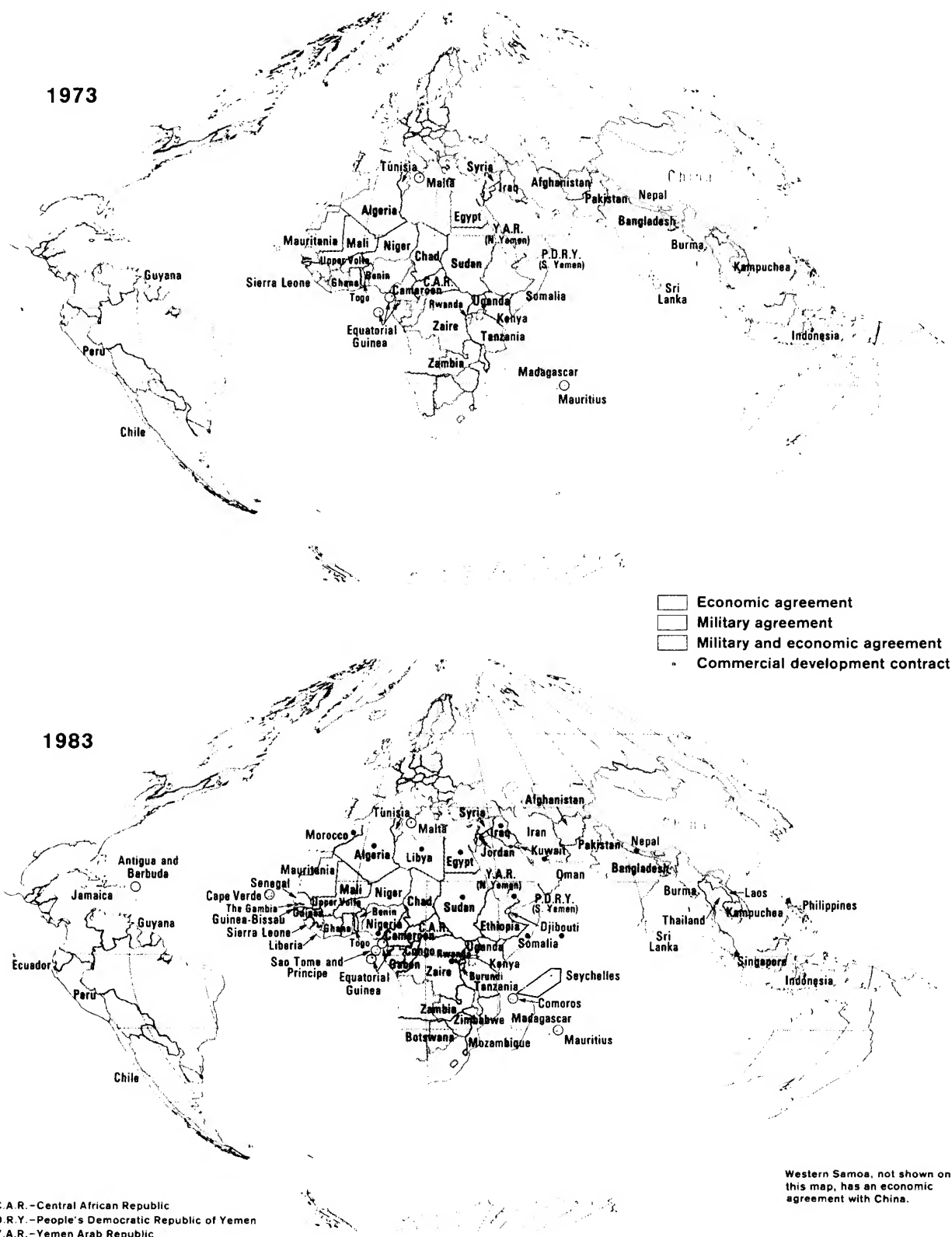
^a Because of rounding, components may not add to totals shown.

On the commercial side, China is working on housing in Kuwait, a number of construction projects in Iraq, and a \$375 million railway line in Nigeria. Last year, Beijing signed a \$1.6 billion railway construction agreement with Libya and is negotiating a similar contract with Algeria. Even though they are newcomers in the international commercial contracting field, the Chinese have been named general contractor on several major projects in LDCs, where they select subcontractors (generally Western or Japanese companies) and arrange for local services. According to Chinese news sources, since 1980 China has earned \$500 million in hard currency through its construction contracts, has an additional \$1.2 billion of contracts in hand, and expected to sign \$1 billion in new contracts in 1983.

New Aid Hits Record Lows. Since 1980 China's new economic aid pledges have fallen dramatically (table 5), a victim of China's economic retrenchment in the post-Mao period. Only a few traditional recipients have received significant new commitments to continue programs. Agreements in the 1980s comprise less

Secret

Figure 4
China's Expanding Relations With the Third World, 1973 and 1983



Secret

Economic Aid

China began its aid efforts in the Third World in 1956 with a few scattered economic commitments to its East Asian neighbors. The program escalated rapidly in the early 1960s, as China competed with the Soviets for influence by extending assistance to newly independent countries in Africa. Over the past 28 years, China has used its \$6 billion aid program to serve a number of political ends, including:

- Competing with the Soviets for leadership of the Communist movement in the Third World.*
- Gaining support for its membership in the United Nations and other world organizations.*
- Competing for leadership among Third World countries.*
- Rewarding Soviet clients that have made the break with Moscow.*

China's economic program historically has been more important than military sales as an instrument of influence in the LDCs. Until 1980, China's total economic aid pledges outweighed military commitments by 4 to 1. Several characteristics set China's economic aid program apart from that of other donors:

- More than half of its aid has been concentrated on Africa, an area generally neglected by other donors.*
- Project implementation is fast. About two-thirds of China's total commitment since 1956 has been delivered.*
- Aid has been focused on infrastructure, primary industries, and agriculture—prominent deficiencies in LDCs.*

- Projects are easy to operate and are import saving, such as simple processing facilities for food and raw materials, textile plants, and agriculture implements factories.*
- Beijing provides adequate technical support and finances local costs of projects through commodities or cash transfers under credit or grant agreements.*

China's unwillingness—because of competing domestic priorities—to provide economic aid as it had before marks the demise of one of the most generous and most popular aid programs in the Third World. China has never had the resources nor the inclination to become a major aid patron: its economic aid to the Third World has accounted for less than 1 percent of total aid to LDCs over the past two and a half decades. Chinese officials have always stressed that self-help programs are the only way that LDCs can improve their economies and care for their growing populations. Still, China is the most popular donor in many countries, particularly in Africa, because it has focused on LDC development objectives often ignored by other countries. China's assistance has been simple and relevant to LDC needs. Most of the aid was interest free, repayable over 10 to 20 years after a 10-year grace period.

than 15 percent of China's total economic aid since 1955 and have followed a downtrend that began in the mid-1970s. Chinese economic aid increased in 1983 over 1982; most was provided on somewhat harder terms than before—shorter repayment periods, low interest charges, and almost no grant aid. The terms of Chinese assistance still are far more generous than those of most other Communist and some Western donors.

In contrast to the decline in new pledges, Beijing has expeditiously discharged its obligations under old aid agreements. We estimate that China has disbursed about \$250 million a year to ongoing projects since 1980—about the same as before. Beijing also has agreed to allocate funds under earlier agreements for stadiums in the Comoros and Guinea Bissau; new roads and bridges in Bangladesh, Burma, Nepal, and

Secret

Secret

Hard Currency Earnings

[redacted] *China first began realizing significant hard currency returns from its new programs last year. In 1983 China reported earnings of \$300 million from its construction services to LDCs, combined with about \$150 million from military sales. This compares with overall earnings from these activities of less than \$50 million annually in 1975-79, and less than \$100 million in the early 1980s. We believe earnings from military sales could realistically rise to \$600 million and technical services to \$500 million annually by the mid-1980s. China has received little foreign exchange from economic aid repayments because most large debts have been rescheduled and China accepts repayments in commodities under old agreements: some new aid pledges call for hard currency repayments, but these probably will not exceed \$20 million a year for the rest of the decade.* [redacted]

Sudan; airport facilities in Mauritius; a coal mine in Tanzania; and possible railroad rehabilitation in Botswana under earlier agreements. These projects are worth several hundred million dollars; they will absorb much of the aid in the pipeline, causing a decline in disbursements later in the decade if new pledges remain at current low levels. [redacted]

Technical Services: A Hard Currency Resource

The provision of project personnel has become the mainstay of China's economic program in LDCs as commitments of capital to aid projects dwindle. The number of Chinese employed in the Third World in 1983 has doubled since 1980—mostly in Iraq, Jordan, and North Yemen. Beijing also is using a small technical presence to build relationships with such Soviet-oriented Marxist states as Angola and Mozambique. [redacted]

Technical services, which formerly were provided free by Beijing to almost all aid recipients, are now being promoted to earn foreign exchange. About half of the 29,000 Chinese economic technicians employed by

Third World countries in 1983 were serving under commercial contracts with the rest financed through aid agreements (table 6). [redacted]

Beginning in 1980, China moved rapidly to export some of its abundant labor on commercial terms and began to bid on construction projects in Arab oil states. To handle its new sales in the Middle East and elsewhere, China opened offices in Dubayy, Iraq, Jordan, Kuwait, and North Yemen. China also merged its Ministry of Foreign Trade with its Ministry of Economic Relations in mid-1982 to integrate aid and trade interests more closely. According to the Chinese press, some 42 companies are involved in construction projects abroad and 40 new labor contracts were signed during the first half of 1983 alone. In 1983, China exploited another potentially lucrative source of funds for the first time by providing labor to projects financed by multilateral agencies in Morocco, Nepal, Nigeria, and Somalia. [redacted]

China has been successful in marketing services because of the reasonable salaries—from \$2,000 per month for project managers down to \$400 a month for laborers. These charges compare with as much as \$8,000 a month for personnel from other Communist countries. The Chinese are also industrious and able to endure difficult working conditions that would not be tolerated by skilled workers from other countries. [redacted]

China still is providing a substantial number of technicians to LDCs under aid agreements. Most of the technicians that China provides free are delivering basic services in public health and education. We estimate that 1,200 doctors and at least 500 teachers from China worked in the Third World (mainly Africa) in 1983. [redacted] most technicians and laborers under this program cost the LDCs only about \$100 to \$300 monthly for local subsistence. [redacted]

Prospects

China's new approach in its economic aid and military transfer programs in the Third World will provide Beijing with a number of opportunities to expand its

25X1
25X125X1
25X125X1
25X1

25X1

25X1
25X1

Secret

Secret

China's "Four Principles" Encourage Profitability

China's new policy has received public endorsement from the highest levels of government. In a rare interview on China's aid program with the Paris daily Jeune Afrique in 1983, Vice Minister Gong Dafei reiterated his country's interest in the Third World, particularly Africa, but cautioned that the day of large Chinese aid projects such as the Tan-Zam Railway is over. According to Gong, "We are, therefore, obliged to reduce our foreign aid and modify the nature of that aid. We now prefer to offer our African friends modest development projects . . . which have rapid returns." [redacted]

During a trip to Africa in January 1983, Premier Zhao Ziyang further enunciated "four principles" for aid to the Third World:

- *"In carrying out economic and technological cooperation with African countries, China abides by the principles of unity and friendship, equality and mutual benefit, respects their sovereignty, does not interfere in their internal affairs, attaches no political conditions and asks for no privileges whatsoever."*
- *In China's economic and technological cooperation with African countries, efforts will be made to achieve good economic results with less investment, shorter construction cycles, and quicker returns.*
- *China's economic and technological cooperation with African countries takes a variety of forms suited to the local specific conditions, such as*

offering technical services, training technical and management personnel, engaging in scientific and technological exchanges, undertaking construction projects, and entering into cooperative production and joint ventures. With regard to the cooperative projects it undertakes, the Chinese side will see to it that the signed contracts are observed, the quality of work guaranteed, and stress laid on friendship. The experts and technical personnel dispatched by the Chinese side do not ask for special treatment.

- *The purpose of China's economic and technological cooperation with African countries is to contribute to the enhancement of the self-reliant capabilities of both sides and promote the growth of the respective national economies by complementing and helping each other."*

This new policy updates the eight principles of aid to foreign countries formulated by Chairman Mao in the early 1960s. It no longer formally precludes China from profiting from its foreign aid efforts. China already has proposed joint ventures in geology and light industry to Nigeria and Tanzania (its first such offers in the Third World) and appears close to agreement with Bangladesh on a joint fishing venture. [redacted]

influence in the LDCs and to strengthen its domestic economy. We expect Beijing will continue its opportunistic approach to arms sales, moving in where a client with a large Soviet inventory—as Iraq—is denied resupply in a crisis because of political reasons. [redacted]

Beijing may have trouble maintaining its current level of military sales once the Iran-Iraq conflict is resolved. Sales to these two countries account for 55

percent of Chinese overall sales, and 70 percent of the new sales in the 1980s. Other limiting factors include:

- *Increasing competition among global arms suppliers.*
- *The accelerated pace of Western arms technology.*
- *The demand for more sophisticated arms by LDC clients.*

Secret

Secret

Table 6
China: Economic Technicians
in LDCs, 1983 ^a

Number of persons

Total	28,790	Seychelles	35
Africa	9,485	Sierra Leone	265
North Africa	2,205	Somalia	450
Algeria	450	Sudan	475
Libya	55	Tanzania	600
Mauritania	700	Togo	200
Morocco	75	Uganda	25
Tunisia	925	Upper Volta	175
Sub-Saharan Africa	7,280	Zaire	300
Angola	10	Zambia	200
Benin	100	Zimbabwe	65
Botswana	40	East Asia	375
Burundi	225	Burma	375
Cameroon	450	Europe	300
Cape Verde	155	Malta	300
Central African Republic	75	Latin America	40
Congo	450	Antigua	5
Djibouti	155	Guyana	10
Equatorial Guinea	75	Jamaica	10
Ethiopia	250	Mexico	5
Gabon	70	Peru	10
Gambia, The	50	Middle East	17,345
Ghana	50	Abu Dhabi	40
Guinea	100	Bahrain	30
Guinea-Bissau	75	Egypt	10
Kenya	50	Iraq	12,000
Liberia	200	Jordan	1,500
Madagascar	500	Kuwait	250
Mali	250	North Yemen	3,500
Mauritius	15	Syria	15
Mozambique	100	South Asia	1,245
Niger	50	Bangladesh	175
Nigeria	150	Maldives	5
Rwanda	700	Nepal	350
Sao Tome and Principe	45	Pakistan	500
Senegal	100	Sri Lanka	215

^a Minimum estimates of number present for one month or more, rounded to the nearest 5.

25X1

Secret

Secret

Table 7*Million US \$***China: Economic Aid Extended to LDCs ^a**

	Total	1954-73	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Total	5,921	3,643	282	410	196	210	219	177	402	112	41	231
North Africa	331	162	57	35		57	20					
Algeria	92	92										
Mauritania	87	30	51									
Morocco	55			35			20					
Tunisia	97	40				57						
Sub-Saharan Africa	3,041	1,174	185	284	134	77	86	92	239	57	10	133
Benin	44	44										NEGL
Botswana	31				17							14
Burundi	58	20						38				
Cameroon	103	71				32						
Cape Verde	17					15	2	NEGL				NEGL
Central African Republic	29	4			10		NEGL					15
Chad	68	50	NEGL	17								
Comoros	15				15							
Congo	199	69				6			36			88
Djibouti	30								30			
Equatorial Guinea	27	24	NEGL			NA			3			
Ethiopia	138	86			17				36			
Gabon	25			25								
Gambia, The	27			27								
Ghana	42	42										
Guinea	144	97	2				1		34		10	
Guinea-Bissau	17			17								
Kenya	64	18							46			
Liberia	23					23						
Madagascar	89	11		58	21							
Mali	128	124		2						NEGL		1
Mauritius	35	35										
Mozambique	65			59		NEGL			4			NEGL
Niger	52	1	51									
Rwanda	56	22					34					
Sao Tome and Principe	18			18				1				
Senegal	52	52					NEGL					
Seychelles	4						4					
Sierra Leone	61	61										
Somalia	164	132	4	NEGL			18		10			
Sudan	139	82					NEGL			57		

Secret

Secret

Table 7

Million US \$

China: Economic Aid Extended to LDCs ^a (continued)

	Total	1954-73	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Tanzania	428	260	75		28			52	6			8
Togo	46	45		NEGL								
Uganda	42	15					26					
Upper Volta	51	49	2				NEGL					
Zaire	138	100		37			NEGL	NEGL				
Zambia	345	228	52	24	28				6			8
Zimbabwe	26								26			
East Asia	422	248	25	1	NA		NA	64		29		55
Burma	225	108						64				53
Indonesia	47	47										
Kampuchea	92	92										
Laos	26		25	1								
Philippines	31									29		2
Thailand	NA						NA					
Western Samoa	NA				NA							
Vanuatu	b											b
Europe	45	45										
Malta	45	45										
Latin America	159	133	8	10	1		2	1			1	2
Antigua	NEGL											NEGL
Chile	65	65										
Ecuador	2											2
Guyana	38	26		10				1			1	
Jamaica	11		8		1		2					
Peru	42	42										
Middle East	573	369	2		27	12	27		96			40
Egypt	193	97							96			
Iraq	45	45										
Jordan	40											40
North Yemen	130	81			27		22					
South Yemen	96	77	2			12	5					
Syria	70	70										
South Asia	1,350	942	4	80	34	63	85	20	66	25	30	NEGL
Afghanistan	76	76										
Bangladesh	107	11				63			33			
Nepal	293	128		80	30					25	30	
Pakistan	651	573					25	20	33			
Sri Lanka	222	154	4		3		60					NEGL

^aBecause of rounding, components may not add to totals shown.^bIndicates presence of an economic and technical cooperation agreement that could eventually provide assistance.

25X1

Secret

Secret

Table 8
China: Economic Credits and Grants
to LDCs, 1956-83 ^a

Million US \$

	Extended			Extended	Drawn
Total	5,921	3,991	Tanzania	428	365
North Africa	331	280	Togo	46	35
Algeria	92	65	Uganda	42	8
Mauritania	87	63	Upper Volta	51	21
Morocco	55	55	Zaire	138	90
Tunisia	97	97	Zambia	345	337
Sub-Saharan Africa	3,041	2,052	Zimbabwe	26	5
Benin	44	20	East Asia	422	248
Botswana	31	10	Burma	225	126
Burundi	58	41	Indonesia	47	47
Cameroon	103	96	Kampuchea	92	69
Cape Verde	17	4	Laos	26	5
Central African Republic	29	12	Philippines	31	
Chad	68	8	Thailand	NA	
Comoros	15	5	Western Samoa	NA	
Congo	199	101	Vanuatu	^b	
Djibouti	30	3	Europe	45	45
Equatorial Guinea	27	26	Malta	45	45
Ethiopia	138	74	Latin America	159	50
Gabon	25	13	Antigua	NEGL	NEGL
Gambia, The	27	13	Chile	65	20
Ghana	42	34	Ecuador	2	
Guinea	144	95	Guyana	38	16
Guinea-Bissau	17	7	Jamaica	11	11
Ivory Coast	^b		Peru	42	2
Kenya	64	6	Middle East	573	374
Liberia	23	6	Egypt	193	99
Madagascar	89	80	Iraq	45	17
Mali	128	117	Jordan	40	
Mauritius	35	5	North Yemen	130	109
Mozambique	65	20	South Yemen	96	79
Niger	52	30	Syria	70	70
Rwanda	56	29	South Asia	1,350	943
Sao Tome and Principe	18	3	Afghanistan	76	40
Senegal	52	37	Bangladesh	107	64
Seychelles	4	4	Nepal	293	167
Sierra Leone	61	59	Pakistan	651	514
Somalia	164	152	Sri Lanka	222	158
Sudan	139	80			

^a Because of rounding, components may not add to totals shown.^b Indicates presence of an economic and technical cooperation agreement that could eventually provide assistance.

25X1

Secret

Secret

Orders will continue, however, to stem largely from traditional clients such as Pakistan and Sri Lanka. Beijing will also serve smaller clients, such as Sub-Saharan African buyers that depend on Beijing for small arms and more basic military equipment.

[REDACTED]

25X1

We believe that China will emphasize the export of basic military equipment, spare parts—especially for Soviet equipment—and support facilities. This is the type of military export commitment that can be readily met by China's defense industries. China probably will be able to increase sales to countries like Egypt and Somalia, which receive Arab funds to maintain their Soviet-built military establishments. The conservative Arab states view China as a far more desirable arms supplier than the USSR. [REDACTED]

25X1

We also believe that China will aggressively market the few competitive weapon systems that it produces, such as its MIG-21 fighter and improved medium tanks. Weapons like these will appeal to a wider group of customers and result in a more stable and predictable flow of orders. [REDACTED]

25X1

On the economic side, many of China's new ventures in LDCs are commercially oriented and provide the opportunity for hard currency earnings. The Chinese are now focusing on contracts with Middle Eastern countries—Algeria, Libya, Iraq, and Kuwait—that can pay hard currency for Chinese services. Beijing will not abandon the poorest LDCs—its favorite constituency—but by its own admission will limit aid to modest agricultural projects and technical assistance. [REDACTED]

25X1

Secret

Secret

Secret